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CITY OF SHAW, MISSISSIPPI

Financial Statement,
Supplemental Information,
Internal Control and Compliance,
and Management Letter

For the Year Ended September 30, 2003
with
Independent Auditor's Reports



Office of the Mayor

ROGER D. CARTER
MAYOR

June 30, 2004

Office of the State Auditor
P.O. Box 956
Jackson, Mississippi 39205

RE: Annual Municipal Audit

Department of Technical Assistance:

Accompanying this letter are two hard copies and one electronic copy of the annual audit of the City of Shaw, Mississippi, for the fiscal year ended September 30, 2003. In conjunction with this audit, a separate management letter was written to the City. Enclosed you will find a copy of this management letter along with the audit reports.

Very truly yours,

Roger Carter
Mayor

**CITY OF SHAW, MISSISSIPPI
FINANCIAL STATEMENT, SUPPLEMENTAL INFORMATION,
INTERNAL CONTROL AND COMPLIANCE, AND MANAGEMENT LETTER
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

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FINANCIAL STATEMENT



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

We have audited the accompanying combined statement of cash receipts and disbursements (all funds) for the City of Shaw, Mississippi, for the year ended September 30, 2003, as listed in the table of contents. The financial statement and schedules are the responsibility of City of Shaw's management. Our responsibility is to express an opinion on the financial statement and schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the combined statement of cash receipts and disbursements referred to above presents fairly, in all material respects, the cash receipts and disbursements for the year ended September 30, 2003, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 19, 2003, on our consideration of City of Shaw's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statement of the City of Shaw, Mississippi, taken as a whole. The other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statement of the City of Shaw, Mississippi. Such information has been subjected to the auditing procedures applied in the audit of the financial statement and, in our opinion, is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

Vicksburg, Mississippi
December 19, 2003

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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**CITY OF SHAW, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS (ALL FUNDS)
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Governmental Funds</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Proprietary Funds</u>	<u>2003</u>
Revenue receipts:				
General property taxes	\$ 334,020	\$ -	\$ -	\$ 334,020
Permits	1,451	-	-	1,451
Licenses	2,005	-	-	2,005
State grants	16,865	-	-	16,865
Federal grants	-	540,815	-	540,815
State shared revenues:				
Municipal aid	1,205	-	-	1,205
Sales tax	79,789	-	-	79,789
Gasoline tax	6,163	-	-	6,163
Alcoholic beverage licenses	900	-	-	900
Fire insurance premium tax distribution	10,450	-	-	10,450
Other:				
Franchise tax	38,887	-	-	38,887
Rent	36,400	-	-	36,400
Nuclear plant	13,525	-	-	13,525
Fines and bonds	47,545	-	-	47,545
Interest income	1,404	-	339	1,743
Charges for services:				
Water	-	-	189,731	189,731
Sanitation	79,728	-	-	79,728
Total revenue receipts	<u>670,337</u>	<u>540,815</u>	<u>190,070</u>	<u>1,401,222</u>
Other receipts:				
Miscellaneous	14,719	-	1,478	16,197
Sale of property	630	-	-	630
Loans and transfers	-	6,680	7,090	13,770
Total other receipts	<u>15,349</u>	<u>6,680</u>	<u>8,568</u>	<u>30,597</u>
Total receipts	685,686	547,495	198,638	1,431,819
Cash balance - beginning of year	197,389	4,852	64,276	266,517
TOTAL AMOUNT TO ACCOUNT FOR	<u><u>\$ 883,075</u></u>	<u><u>\$ 552,347</u></u>	<u><u>\$ 262,914</u></u>	<u><u>\$ 1,698,336</u></u>

Continued

**CITY OF SHAW, MISSISSIPPI
COMBINED STATEMENT OF CASH RECEIPTS
AND DISBURSEMENTS (ALL FUNDS) - CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

	<u>Governmental Funds</u>			Total (Memorandum Only)
	<u>General</u>	<u>Special Revenue</u>	<u>Proprietary Funds</u>	<u>2003</u>
Operating disbursements:				
General government (executive and financial)	\$ 127,522	\$ -	\$ -	\$ 127,522
Public safety:				
Police	331,818	-	-	331,818
Fire	25,222	-	-	25,222
Highways and streets:				
Repairs and maintenance	33,051	-	-	33,051
Sanitation	88,382	-	-	88,382
Libraries	20,536	-	-	20,536
Enterprise:				
Water	-	-	168,957	168,957
Interest on loans and bonds	5,113	-	26,111	31,224
Total operating disbursements	<u>631,644</u>	<u>-</u>	<u>195,068</u>	<u>826,712</u>
Other disbursements:				
Loans repaid	9,093	-	13,849	22,942
Capital outlay	23,612	529,821	-	553,433
Loans and transfers	<u>13,770</u>	<u>-</u>	<u>-</u>	<u>13,770</u>
Total other disbursements	<u>46,475</u>	<u>529,821</u>	<u>13,849</u>	<u>590,145</u>
Total disbursements	678,119	529,821	208,917	1,416,857
Cash balance - end of year	<u>204,956</u>	<u>22,526</u>	<u>53,997</u>	<u>281,479</u>
TOTAL AMOUNT ACCOUNTED FOR	<u>\$ 883,075</u>	<u>\$ 552,347</u>	<u>\$ 262,914</u>	<u>\$ 1,698,336</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF SHAW, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information

The City operates under the Mayor-Alderman form of government and provides services as authorized by law.

Reporting Entity

The financial statement of the City consists of all the funds of the City.

Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. Funds are classified into categories as follows:

Governmental Funds

General Fund

The General Fund is the main operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue resources that are legally restricted to expenditures for specified purposes.

Continued

**CITY OF SHAW, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Accounting - continued

Proprietary Funds

Proprietary Funds are used to account for operations which are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or where the governing body has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

Basis of Accounting

The financial statement is prepared on a cash receipts and disbursements basis, as prescribed by the Office of the State Auditor. Consequently, certain revenues are recognized when received rather than when earned, and certain expenses are recognized when paid rather than when the obligation is incurred.

Memorandum Total

The total column is captioned “memorandum only” to indicate that it is presented only to facilitate analysis. Data in this column does not present the financial position of the City in conformity with the cash basis of accounting. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

NOTE 2. REPORT CLASSIFICATIONS

Receipts and disbursements were classified according to requirements for small cities in the State of Mississippi as prescribed by the Office of the State Auditor.

NOTE 3. COMMITMENT AND CONTINGENCIES

The City has entered into lease agreements for use of a copier and postage machine. The copier lease began March 2002 and is for a period of 60 months with monthly payments of \$199. The postage machine lease began March 2002 and is for a period of 48 months with a monthly payment of \$142.

Continued

**CITY OF SHAW, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

NOTE 3. COMMITMENT AND CONTINGENCIES – CONTINUED

Rent payments for 2003 were \$4,092. Future minimum rental payments are \$4,092 in 2004 and 2005, \$3,240 in 2006 and \$1,194 in 2007.

The City has contracted for roof repairs at the library. The amount remaining to complete on this contract at September 30, 2003, is \$11,539. The City has contracted for street and storm drainage improvements. The amount remaining to be completed on this contract is \$67,664 at September 30, 2003.

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

Grant monies received and disbursed by the City are for specific purposes and are subject to audit and review by grantor agencies. Such audits may result in requests for reimbursement due to disallowed expenditures. Based on prior experience, the City does not believe that such disallowances, if any, would have a material effect on the financial position of the City.

NOTE 4. DEPOSITS WITH FINANCIAL INSTITUTIONS AND INVESTMENTS

At September 30, 2003, the carrying amount (recorded on the City's books) of the City's cash deposits, including certificates of deposit, was \$281,479, and the bank balance was \$280,039.

The collateral for public entities' deposits in financial institutions is now held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5 Miss. Code Ann. (1972). Under this program, the City's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against these deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

NOTE 5. PROPERTY TAXES

Property taxes are levied in September on the assessed (appraised) value of all real and business personal property located in the City and are payable by the following February 1. An enforceable lien on property is attached as of January 1.

For the current year, the City levied taxes in the amount of 77 mills.

Continued

**CITY OF SHAW, MISSISSIPPI
NOTES TO FINANCIAL STATEMENT – CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

NOTE 6. DEFINED BENEFIT PENSION PLAN AND OTHER EMPLOYEE BENEFITS

Plan Description: The City of Shaw contributes to the Public Employees' retirement system of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to Public Employee Retirement System, PERS Building, 429 Mississippi Street, Jackson, Mississippi 39201-1005 or by calling (601) 359-3589 or 1-800-444-PERS.

Funding Policy: PERS members are required to contribute 7.25% of their annual covered salary and City of Shaw is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members are established and may be amended only by the State of Mississippi Legislature. The City of Shaw's contributions to PERS for the year ending September 30, 2003 was \$29,926, equal to the required contributions for each year.

SUPPLEMENTAL INFORMATION

**CITY OF SHAW, MISSISSIPPI
SCHEDULE OF LONG-TERM DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

DEFINITION AND PURPOSE

	<u>September 30, 2002</u>	<u>Issued</u>	<u>Redeemed</u>	<u>September 30, 2003</u>
Revenue bonds:				
1986 Bonds payable	\$ 400,447	\$ -	\$ (13,849)	\$ 386,598
Other long-term debt:				
Mississippi Dept. of Economic & Community Development loan	4,912	-	(4,912)	-
Rural Development loan for equipment	<u>106,300</u>	<u>-</u>	<u>(4,181)</u>	<u>102,119</u>
Total	<u>\$ 511,659</u>	<u>\$ -</u>	<u>\$ (22,942)</u>	<u>\$ 488,717</u>

CITY OF SHAW, MISSISSIPPI
SCHEDULE OF SURETY BONDS FOR MUNICIPAL OFFICIALS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

<u>Official</u>	<u>Name of Insurance Company</u>	<u>Amount</u>
<u>City Clerk</u>		
Cynthia D. Hawkins	Brierfield Insurance Company	\$ 50,000
<u>Police Chief</u>		
Don Walker	Western Surety Company	N/A
<u>Deputy Clerk</u>		
Willie Sue Clinton	Western Surety Company	\$ 10,000
<u>Mayor</u>		
Roger D. Carter	Brierfield Insurance Company	\$ 50,000
<u>Policeman</u>		
Willie J. Bethley	Western Surety Company	\$ 25,000
Charles B. Keith	Western Surety Company	\$ 25,000
Bobby Walker	Western Surety Company	\$ 25,000
Walter McLaurin	Western Surety Company	\$ 25,000
Jeris Davis	Western Surety Company	\$ 25,000
James Williams	Western Surety Company	\$ 25,000
Mccsha Lcssic	Western Surety Company	in process
Willie McGuire	Western Surety Company	in process
Rogers Simpson	Western Surety Company	N/A
<u>Alderman</u>		
Diana Drake	USF&G	\$ 15,000
Catherine Farris	USF&G	\$ 15,000
Newton Roncali	USF&G	\$ 15,000
Valerie Smith	USF&G	\$ 15,000
Bill Williams	USF&G	\$ 15,000
<u>Dispatchers</u>		
Blanket Bond	Brierfield Insurance Company	\$ 2,000

Note: As of September 30, 2003, two police officers were not bonded. The paperwork was provided to the insurance company in December 2003 and bonds were subsequently obtained with an effective date of September 9, 2003. Two officers did not qualify to be bonded. The City was looking for alternative sources of bonds.

CITY OF SHAW, MISSISSIPPI
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003

Federal Grantor/Pass-through Grantor or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. Department of Housing and Urban Development:			
Pass through programs from the MS Authority Development			
CDBG Public Facility Fund-Street Improvements	14.228	00-335-PF-01	\$ 133,370
CDBG Public Facility Fund-Sewer Plant Improvements	14.228	1119-02-335-EM-01	<u>61,394</u>
Total U.S. Department of Housing and Urban Development			<u>194,764</u>
Federal Emergency Management Agency:			
Pass through programs from the MS Emergency			
Management Agency			
Hazard Mitigation Unmet Needs	83.548	1265-002	<u>328,377</u>
Total expenditures of federal awards			\$ <u><u>523,141</u></u>

See accompanying note to schedule of expenditures of federal awards.

**CITY OF SHAW, MISSISSIPPI
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

NOTE A – Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Shaw and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**CITY OF SHAW, MISSISSIPPI
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

INTERNAL CONTROL AND COMPLIANCE



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

We have audited the combined statement of cash receipts and disbursements (all funds) of the City of Shaw, Mississippi, for the year ended September 30, 2003, and have issued our report dated December 19, 2003. We have conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*.

As required by the state legal compliance audit programs prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain state laws and regulations. However, providing an opinion on compliance with state laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of those procedures and our audit of the combined statement of cash receipts and disbursements disclosed the following material instance of noncompliance with State laws and regulations. Our findings and recommendations and your responses are as follows:

Finding – The Police Chief and three other policemen were not bonded at year end. Two officers were subsequently bonded. The City is exposed to liability if a claim arises when the proper bond is not in place.

Recommendation – The City Clerk and Board should regularly review the insurance coverage, especially when personnel changes are effective.

Response – The Board has reviewed their insurance coverage and will regularly monitor the policies, especially when personnel change.

Finding – Proper bids could not be located to support compliance with bid laws for the purchase of one police vehicle. The City indicated such bids were obtained, but could not locate support.

Recommendation – The City should comply with State bid laws and retain documentation of such compliance.

Response – The City will continue to comply with State bid laws and will retain all supporting records.

Continued

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Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

Page Two

Finding – A physical inventory of City assets has not been prepared.

Recommendation – In anticipation of GASB 34 compliance and to better manage the City's assets, the Board should delegate to a team of City employees the job of completing a physical inventory and preparing a physical inventory report that can be updated as assets are purchased, constructed, sold or disposed.

Response – The City will begin the process of performing a physical inventory of all assets. Sufficient data will be obtained on each asset to efficiently track assets throughout their life.

The Office of the State Auditor or a public accounting firm will review, on a subsequent year's audit engagement, the findings in this report to ensure that corrective action has been taken.

This report is intended solely for the information of the City's management and the Office of the State Auditor and is not intended to be and should not be used by anyone other than those specified parties.


Vicksburg, Mississippi
December 19, 2003



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

We have audited the combined statement of cash receipts and disbursements (all funds) of the City of Shaw, Mississippi, for the year ended September 30, 2003, and have issued our report thereon dated December 19, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Shaw's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Shaw's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Shaw's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 03-1 to 03-4.

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Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

Page Two

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above are a material weakness.

We also noted other matters involving the internal control over financial reporting, which we have reported to management of City of Shaw, Mississippi in a separate letter dated December 19, 2003.

This report is intended solely for the information and use of the management, Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Vicksburg, Mississippi
December 19, 2003



WE BRING EXCELLENCE AND INNOVATION TO THE EQUATION

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

Compliance

We have audited the compliance of the City of Shaw, Mississippi, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2003. The City of Shaw's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Shaw's management. Our responsibility is to express an opinion on the City of Shaw's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America: the standards applicable to financial audits contained in

standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Shaw's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City of Shaw's compliance with those requirements.

In our opinion, the City of Shaw complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2003.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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Honorable Mayor and Board of Alderpersons
City of Shaw, Mississippi

Page Two

Internal Control Over Compliance

The management of the City of Shaw is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Shaw's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the management, Office of the State Auditor, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

May + Company

Vicksburg, Mississippi
December 19, 2003

**CITY OF SHAW, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the combined statement of cash receipts and disbursements of the City of Shaw.
2. Four reportable conditions disclosed during the audit of the financial statements are reported in the Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. None of the conditions are reported as a material weakness.
3. No instances of noncompliance material to the financial statements of the City of Shaw, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable condition in internal control over major federal award programs was disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs for the City of Shaw expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included: Federal Emergency Management Agency Hazard Mitigation Unmet Needs Program, CFDA 83.548
8. The threshold used for distinguishing between Type A and B programs was \$300,000.
9. The City of Shaw did not qualify as a low-risk auditee.

FINDINGS—FINANCIAL STATEMENT AUDIT

COMPLIANCE

None

Continued

**CITY OF SHAW, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

FINDINGS—FINANCIAL STATEMENT AUDIT-CONTINUED

REPORTABLE CONDITIONS

03-1 Segregation of Duties

Condition: The current size of the City's work force limits the ability to employ adequate segregation of duties. Most office duties are performed by the City Clerk.

Criteria: No one employee should have access to both physical assets and the related accounting records or to all phases of a transaction.

Effect: The City is exposed to potential risk of errors and abuse.

Recommendation: The City should continue to keep abreast of daily activity and closely review and approve transactions (including claims dockets, disbursements, minutes, payroll reports and annual W-2 forms, and financial reports). A Board member, or their designee, should receive and open the bank statements and review the completed reconciliations, review and approve journal entries and subsidiary ledgers. Also, department heads should initial and sign invoices as their approval that product or service was received and ready for inclusion on the claims docket before they are processed by the City Clerk.

03-2 Collection and Processing Fines

Condition: The system over collecting and processing fines during the period did not include several control features.

Criteria: All receipts should be properly handled to ensue all monies are deposited and recorded.

Effect: Receipts were not provided to the City Clerk sequentially. Discrepancies were noted between the amount collected on the receipts and the amount deposited. Voided receipts were not available and three part receipts were not always generated.

Recommendation: A formal policy should be developed and monitored. The policy should include a requirement that all checks be stamped with a restrictive endorsement by the police department at the time of receipt, rather than waiting for the City Clerk to apply the stamp. Also, receipts should be prepared sequentially and timely turned in. The Police Chief should prepare a log of the receipts to submit to the City Clerk, including voided receipts. The log and receipts should be timely provided to the City Clerk. The Police Chief and the City Clerk should count the money and both the Police Chief and the City Clerk should sign the log evidencing the amount received and to be deposited. The numeric sequence of receipts

Continued

**CITY OF SHAW, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

FINDINGS—FINANCIAL STATEMENT AUDIT-CONTINUED

REPORTABLE CONDITIONS-CONTINUED

03-2 Collection and Processing Fines-Continued

should be accounted for each time a log is generated. The City should purchase three part prenumbered receipt books. Someone independent of the Police Department should account for the numeric sequence of receipts issued to the Police Department. One copy should be given to the payee, one retained by the Police Department in a numeric file and one copy provided to the City Clerk to support the deposit and log. If the receipt is voided the payee copy should be included in the City Clerk's file.

03-3 Water and Sanitation Collections

Condition: Water and sanitation receivables are not adequately monitored and collection and cut-off policies are not always followed.

Criteria: The City Clerk and Board should regularly monitor the receivable subsidiary ledgers and enforce policies to ensure all funds are timely billed and collected.

Effect: The City's outstanding receivable ledgers include numerous past due balances. Many customers continue to receive City services when their accounts are delinquent. The City's cash flow situation is diminished when the City is not diligent in collecting receivables and enforcing cut-off policies.

Recommendation: Any deviations from existing policies should be timely brought to the attention of the Board and ratified in the minutes. Also, the Board should regularly review the detail subsidiary ledgers and monitor enforcement with existing policies.

03-4 Fuel and Oil Purchases

Condition: City employees are allowed to charge fuel and oil purchases. In reviewing charges, we noted many instances where high grade fuel and non-fuel or oil products were purchased.

Criteria: The City's policy over fuel and oil purchases should include specific purchasing criteria and the policy should be enforced.

Effect: The City may have paid for charges that violated the City's policy or were for an employee's personal benefit.

Continued

**CITY OF SHAW, MISSISSIPPI
SCHEDULE OF FINDINGS AND QUESTIONED COSTS-CONTINUED
FOR THE YEAR ENDED SEPTEMBER 30, 2003**

FINDINGS—FINANCIAL STATEMENT AUDIT-CONTINUED

REPORTABLE CONDITIONS-CONTINUED

03-4 Fuel and Oil Purchases-Continued

Recommendation: The policy over fuel and oil purchases should be reviewed and refined. All purchases should be supported by detail receipts and include appropriate approvals. The Board should ensure that the policy is enforced and review supporting documentation before fuel and oil purchases are presented on the docket.

**FINDINGS AND QUESTIONED COSTS—MAJOR FEDERAL AWARD PROGRAMS
AUDIT**

None

MANAGEMENT LETTER



Honorable Mayor and Board of Alderpersons
City of Shaw
Shaw, Mississippi

In planning and performing our audit of the combined statement of cash receipts and disbursements (all funds) of the City of Shaw, Mississippi, for the year ended September 30, 2003, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the combined statement of cash receipts and disbursements (all funds) and not to provide assurance on internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency, these items are listed below. A separate report dated December 19, 2003, contains our report on reportable conditions in the City's internal control. This letter does not affect our report dated December 19, 2003, on the combined statement of cash receipts and disbursements (all funds) of the City of Shaw, Mississippi.

Property Tax Revenue

The amount of property tax assessed exceeded the amount collected, even after considering the customer balances that were unpaid at year end. The City Clerk should review the posting of property tax revenue to ensure it is being properly classified. It is also recommended that the City Clerk perform a reconciliation during the year to isolate possible errors or discrepancies in a timely manner.

Inventory Fixed Assets

We recommend that the City perform a physical inventory of property and equipment. In connection with this inventory, tags should be placed on each asset with numbers that are recorded in the detail property records. This will help improve the tracking of assets for disposal and impairment purposes. In addition, the City may need to adopt GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments. This statement will make dramatic changes to the way state and local governments report their finances to the public. One major aspect of this statement will require capitalization of infrastructures with related depreciation.

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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email: info@maycpa.com • website: www.maycpa.com

Bank Statements and Reconciliations

We noted a few old reconciling items on bank reconciliation. We recommend that the City research and resolve these items before the end of the next fiscal year. The bank does not image the back of the canceled checks. The endorsement and routing data on the back of canceled checks can be invaluable if a payment is disputed or if concerns of embezzlement arise. It is recommended that the bank be instructed to image both sides of the canceled checks and that the images be large enough to easily read.

Purchasing and Receiving System

The City employs a purchase order system, but we noted instances where department heads requested a purchase order after the purchase had been completed. Also, a numeric file of purchase orders generated is not maintained.

Packing slips, which provide verification of the quantity received, are not submitted to the City Clerk, therefore, she does not have adequate evidence supporting that the invoice is valid and that City funds are being spent prudently.

It is recommended that purchase orders be requested and approved before a purchase is initiated. The purchase orders should be issued sequentially and a numeric file maintained. Someone independent of the purchasing process should routinely account for the numeric sequence of purchase orders. Also, City employees should verify the quantities noted on the packing slips and provide these documents to the City Clerk. The City Clerk should compare the data on the invoice, purchase order and packing slip before the invoice is processed for payment and included on the docket.

Information Technology System

The City relies heavily on their computer system for processing accounting transactions. Currently a back up of the software programs and data is not retained off site. It is recommended that a back up be regularly generated and stored at a secure off site location.

Contract Management

The City has a contract with Waste Management for garbage collection. The contract requires a quarterly evaluation by the City to determine the number of customers. This quarterly evaluation has not been performed and the City has been billed for non-existent customers. It is recommended that the number of customers be calculated each quarter and the revised number submitted to Waste Management. The City should also contact Waste Management and request a refund of the excess paid during the contract period.

City of Shaw
Shaw, Mississippi

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We will review the status of these comments during our next audit engagement. We have already discussed many of these comments and suggestions with various City personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

Mays Company

Vicksburg, Mississippi
December 19, 2003